

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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January 20, 2005

Ms. Linda A. Holtzscheiter, Reimbursement Manager  
Mariner Health Care  
5300 West Sam Houston Parkway North  
Houston, Texas 77041

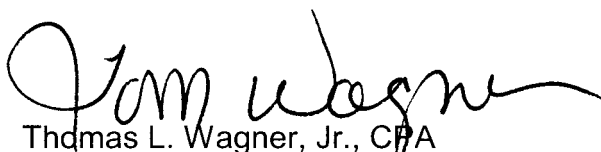
Re: AC# 3-MAS-J2 – GranCare South Carolina, Inc.  
d/b/a Mariner Health Care of Seneca

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**GRANCARE SOUTH CAROLINA, INC.  
D/B/A MARINER HEALTH CARE OF SENECA  
SENECA, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2003  
AC# 3-MAS-J2**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 29, 2004

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

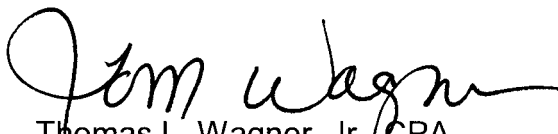
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Mariner Health Care of Seneca dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
October 29, 2004

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr. CPA  
State Auditor

**MARINER HEALTH CARE OF SENECA**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2003  
AC# 3-MAS-J2

	10/01/03- <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$114.97
Adjusted Reimbursement Rate	<u>112.34</u>
Decrease in Reimbursement Rate	\$ <u><u>2.63</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing as of July 12, 2004

**MARINER HEALTH CARE OF SENECA**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2003 Through September 30, 2004  
AC# 3-MAS-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$54.84	\$ 66.44	
Dietary		10.66	11.55	
Laundry/Housekeeping/Maintenance		<u>9.78</u>	<u>9.83</u>	
Subtotal	\$ <u>6.15</u>	75.28	87.82	\$ 75.28
Administration & Medical Records	\$ <u>-</u>	<u>14.24</u>	<u>13.46</u>	<u>13.46</u>
Subtotal		89.52	<u>\$101.28</u>	88.74
<u>Costs Not Subject to Standards:</u>				
Utilities		3.24		3.24
Special Services		.01		.01
Medical Supplies & Oxygen		2.75		2.75
Taxes and Insurance		3.83		3.83
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$99.35</u>		98.57
Inflation Factor (4.70%)				4.63
Cost of Capital				7.39
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				6.15
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.40)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$112.34</u>

**MARINER HEALTH CARE OF SENECA**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2002  
AC# 3-MAS-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,652,888	\$ -	\$ 2,219 (2) 19,196 (7) 1,131 (7) 9,983 (8) 12,196 (12)	\$2,608,163
Dietary	508,934	-	2,073 (7)	506,861
Laundry	96,095	-	639 (7)	95,456
Housekeeping	218,099	925 (10)	1,553 (7) 920 (11)	216,551
Maintenance	150,644	3,309 (8) 629 (10)	603 (7) 639 (11)	153,340
Administration & Medical Records	675,775	463 (4) 12,576 (8) 458 (10)	7,233 (1) 2,777 (7) 387 (7) 448 (11) 1,177 (12)	677,250
Utilities	157,372	656 (10)	3,211 (3) 8 (8) 642 (11)	154,167
Special Services	433	4,907 (8)	2,021 (7) 2,882 (12)	437
Medical Supplies & Oxygen	164,038	-	19,561 (6) 13,777 (12)	130,700
Taxes and Insurance	189,361	4,190 (8) 769 (10)	7,697 (4) 3,516 (5) 740 (11)	182,367

**MARINER HEALTH CARE OF SENECA**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 2002  
 AC# 3-MAS-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	-	-	-	-
Cost of Capital	382,255	1,076 (1) 543 (10)	30,667 (8) 1,512 (9) 424 (11)	351,271
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	5,195,894	30,501	149,832	5,076,563
Ancillary	212,406	14,984 (6) 98 (12)	-	227,488
Nonallowable	6,033,356	6,157 (1) 3,516 (5) 1,740 (6) 30,380 (7) 15,676 (8) 1,512 (9) 3,813 (11) 29,934 (12)	3,980 (10)	6,122,104
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$11,441,656</u>	<u>\$138,311</u>	<u>\$153,812</u>	<u>\$11,426,155</u>
Total Patient Days	<u>47,562</u>	<u>-</u>	<u>-</u>	<u>47,562</u>
Total Beds	<u>132</u>			

**MARINER HEALTH CARE OF SENECA**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-MAS-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$397,778	
	Cost of Capital	1,076	
	Nonallowable	6,157	
	Accumulated Depreciation		\$377,855
	Other Equity		19,923
	Administration		7,233
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	2,219	
	Nursing		2,219
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
3	Accounts Payable	3,211	
	Utilities		3,211
	To adjust utilities expense HIM-15-1, Sections 2302.1 and 2304		
4	Accrued Property Taxes	10,371	
	Administration	463	
	Taxes and Insurance		7,697
	Retained Earnings		3,137
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		
5	Nonallowable	3,516	
	Taxes and Insurance		3,516
	To adjust liability insurance expense HIM-15-1, Section 2304		

**MARINER HEALTH CARE OF SENECA**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-MAS-J2

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Retained Earnings	2,837	
	Ancillary	14,984	
	Nonallowable	1,740	
	Medical Supplies		19,561
	<p>To properly charge expense applicable to the prior period, disallow expense due to lack of documentation and reclassify expense to the proper cost center HIM-15-1, Sections 2302.1 and 2304 DH&amp;HS Expense Crosswalk</p>		
7	Nonallowable	30,380	
	Nursing		19,196
	Restorative		1,131
	Dietary		2,073
	Laundry		639
	Housekeeping		1,553
	Maintenance		603
	Administration		2,777
	Medical Records		387
	Special Services		2,021
	<p>To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D</p>		
8	Maintenance	3,309	
	Administration	12,576	
	Taxes and Insurance	4,190	
	Special Services	4,907	
	Nonallowable	15,676	
	Nursing		9,983
	Utilities		8
	Cost of Capital		30,667
	<p>To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D</p>		

**MARINER HEALTH CARE OF SENECA**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-MAS-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	1,512	
	Cost of Capital		1,512
	To adjust capital return		
	State Plan, Attachment 4.19D		
10	Housekeeping	925	
	Maintenance	629	
	Administration	458	
	Utilities	656	
	Taxes and Insurance	769	
	Cost of Capital	543	
	Nonallowable		3,980
	To reverse DH&HS adjustment to remove		
	indirect cost applicable to a non-		
	reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		
11	Nonallowable	3,813	
	Housekeeping		920
	Maintenance		639
	Administration		448
	Utilities		642
	Taxes and Insurance		740
	Cost of Capital		424
	To remove indirect cost applicable to a		
	non-reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

**MARINER HEALTH CARE OF SENECA**  
Adjustment Report  
Cost Report Period Ended September 30, 2002  
AC# 3-MAS-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Ancillary	98	
	Nonallowable	29,934	
	Nursing		12,196
	Administration		1,177
	Medical Supplies		13,777
	Special Services		2,882
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$554,727</u>	<u>\$554,727</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MARINER HEALTH CARE OF SENECA**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-MAS-J2

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.55013</u>
Deemed Asset Value (Per Bed)	39,828
Number of Beds	<u>132</u>
Deemed Asset Value	5,257,296
Improvements Since 1981	1,328,630
Accumulated Depreciation at 9/30/02	<u>(2,164,610)</u>
Deemed Depreciated Value	4,421,316
Market Rate of Return	<u>.0561</u>
Total Annual Return	248,036
Return Applicable to Non-Reimbursable Cost Centers	(1,005)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	247,031
Depreciation Expense	127,267
Amortization Expense	608
Capital Related Income Offsets	(23,211)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(424)</u>
Allowable Cost of Capital Expense	351,271
Total Patient Days (Actual)	<u>47,562</u>
Cost of Capital Per Diem	\$ <u><u>7.39</u></u>

**MARINER HEALTH CARE OF SENECA**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2002  
AC# 3-MAS-J2

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.04
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$11.03</u>
Reimbursable Cost of Capital Per Diem	\$ 7.39
Cost of Capital Per Diem	<u>7.39</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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